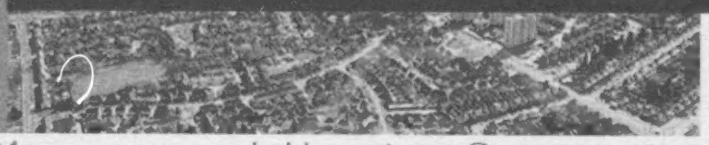
HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

London CMA



Canada Mortgage and Housing Corporation

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New Home Market

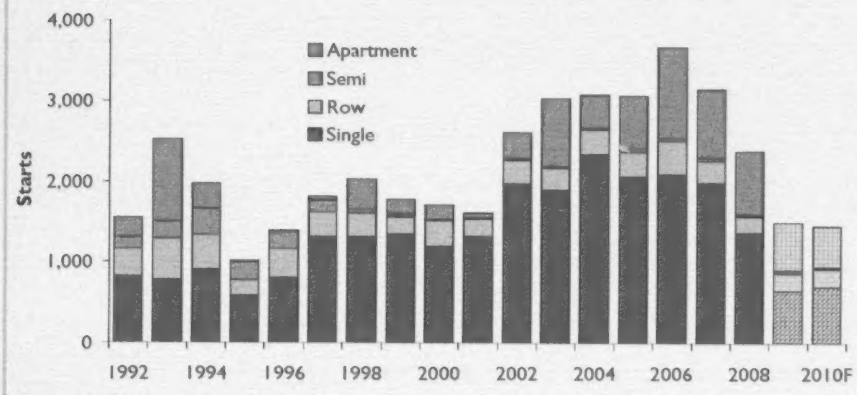
Correction in New Home Demand

Housing starts in the London CMA will move down in 2009 before stabilizing somewhat in 2010. Home starts will reach 1,500, down 37 per cent from the 2,385 units in 2008. The decline will moderate in 2010 as a result of some rejuvenation in demand for new single-detached homes and will mitigate a further decline in apartment starts.

Similar to the resale market, many potential buyers of new homes have adopted a wait-and see attitude towards homeownership. However, another major reason for the decline in starts is the satiation of pent-up

Figure 1

Single-Detached Starts Lead the Drop



Source: CMHC

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demand built up in the 1990s. Consequently, demand going forward will be more in line with long term demographic requirements. According CMHC's long term housing demand projections, these requirements are approximately 1800 new homes annually.

Another reason for lower starts is the strong competition from the resale market. In general, buyers tend to begin their search for suitable homes in the resale market. With more listings in the resale market, homebuyers are more likely to find a resale home that meets their needs and is also more affordable and readily available, resulting in less demand for new homes.

The decline in detached home demand will also contribute to the overall drop in new home construction in 2009. Demand for single-detached homes usually comes from move-up buyers. However, a higher number of listings in the resale market in 2009 will make it harder for them to sell their existing homes, resulting in the drop in detached home starts in 2009. However, as the resale market recovers in 2010, move-up activities will fuel more single-detached home starts.

The price differential between new and resale detached homes has also had a negative impact on starts. While a resale single-detached home was sold for approximately $240,000 in 2008, the average price for a new detached home is around $340,000, causing some buyers to skip the sales office.

An increase in inventory also impacts builders and developers' ability to bring more projects online. The number of unsold units has been at a high level since 2004. These units will have to be sold before developers can bring more projects on line. With the economy expected to recover in 2010, the existing inventory of new homes will likely start to edge down.

Resale Market

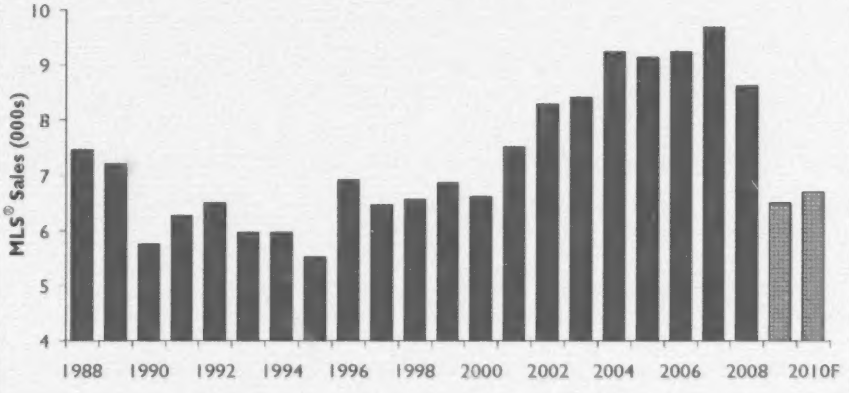
More Bargaining Power for Buyers

Sales of resale homes in the London CMA will decrease significantly in 2009 before a moderate recovery in 2010. Sales of existing homes through the London- St. Thomas Real Estate Board will decline by 25 per cent to 6,500 sales in 2009, but should move back up slightly in 2010. Much of the decline in 2009 is due to fluctuations in the economy, which resulted in many potential buyers shying away from or postponing home ownership. The recent increase in the unemployment rate has also had a negative impact. However, as the economy recovers in 2010, many of those who postponed homeownership will move in to take advantage of improved affordability.

Affordability is improving in the CMA's resale home market. The income required to own a home[2] in London will fall in 2009 for the first time since 2002, while actual household income[3] is expected to continue to rise. Required income in London as a percentage of actual incomes is lower than in the majority of other major centres in the province, implying that buyers in London tend to find it easier to become

Figure 2

Resale Home Sales Cools before Rebound



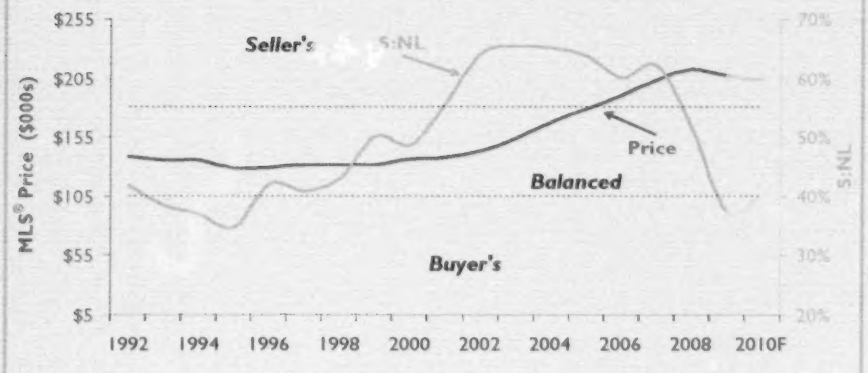
Source: CREA, Statistics Canada

[2] Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio.

[3] Actual Income is the average household income based on Statistics Canada's Survey of Labour and Income Dynamics to 2006 and estimated subsequently based on average weekly earnings.

Figure 3

Resale Market Favours Buyers



Source: CREA, CMHC Forecast

homeowners than buyers in a number of other centres in Ontario. Improved affordability and more secure employment prospects due to the expected economic recovery in 2010 will prompt many first time buyers to reconsider homeownership and re-enter the resale housing market.

The supply of newly-listed homes will remain high. New listings are expected to stay at the 2008 level, which were around 16,700. Although the abundance of supply will put downward pressure on prices in 2009, it will also draw more potential buyers to consider resale homes. An abundance of choice in the resale market will likely place most homebuyers in a stronger bargaining position.

With the number of new listings increasing and sales declining, the sales-to-new listings ratio (SNLR), a leading indicator of price growth and a measure of market conditions, will move into buyer's market territory by the end of 2009. Consequently, the price level for resale homes is expected to edge down. The average price of a resale home in 2009 is forecast to be $207,000, down slightly more than two per cent from 212,000, in 2008. Stronger sales among lower price ranges pulled down the average. As demand strengthens in 2010, the average resale home price will stabilize.

On a submarket basis, while most submarkets in the London CMA will be balanced before moving into a buyer's market, St Thomas will be ahead of the trend. A sharp drop in sales during the past few months and rising days-on-the-market (from an average of 50 days to 90 days during past three months) means that St. Thomas has already moved into buyer's market. This trend will continue as long as weakness in North American auto sector remains.

Economic Trends

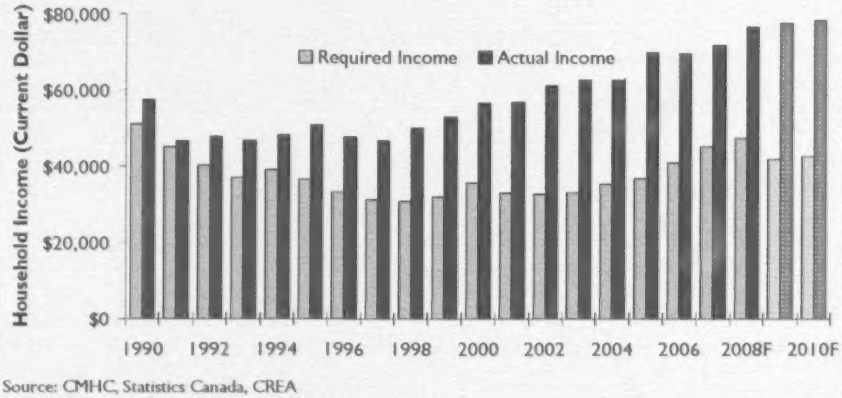
Employment

Given the weakness in the manufacturing sector, soft service sector employment, and more new entrants to the labour force, the overall unemployment rate is expected to reach nine per cent in 2009.

Employment in the goods producing sector continues to weaken largely due to the soft job condition in the London CMA's automotive sector. Areas where employment relies on

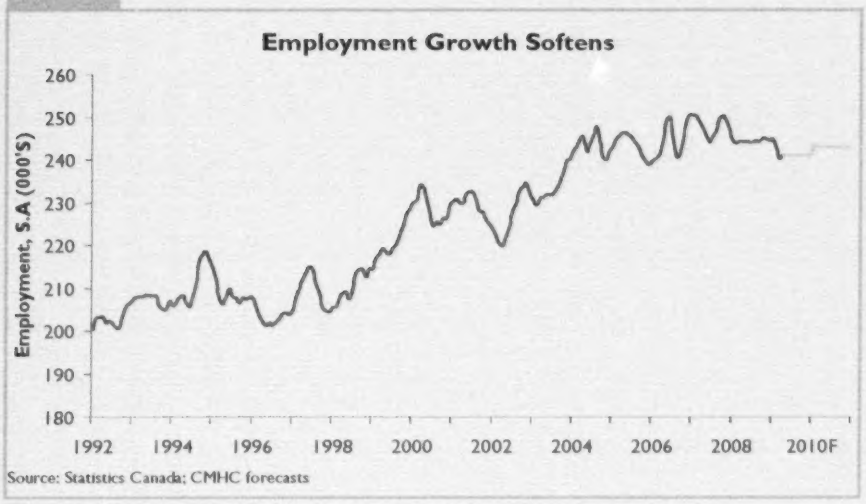
Figure 4

Affordability Improves in the London CMA



Source: CMHC, Statistics Canada, CREA

Figure 5



Source: Statistics Canada; CMHC forecasts

Detroit Three Auto makers are especially hard hit, resulting in plant closures. Some areas in London depend more on Japanese auto makers such as Toyota and Suzuki. Though these manufacturers are not expecting to trim jobs, weak demand for both vehicles and light trucks in the U.S will keep them from adding shifts. While the automotive sector weakens, construction sector jobs have been recovering from the decline during the last quarter of 2008. Infrastructure investments in the London CMA will help boost employment in the construction sector.

London's solid service sector is beginning to show some sign of weakness. After several years of expansion, its growth has slowed due to losses in several service industries. These include education, transportation, accommodation and other services. However, the number of high paying health care sector jobs continues to expand due to more investment in the health care sector in the London CMA.

The labour force in the London CMA will increase by 2 per cent in 2009. In conjunction with recent lay offs in the manufacturing sector, this will result in a higher unemployment rate as more people compete for fewer jobs in the market.

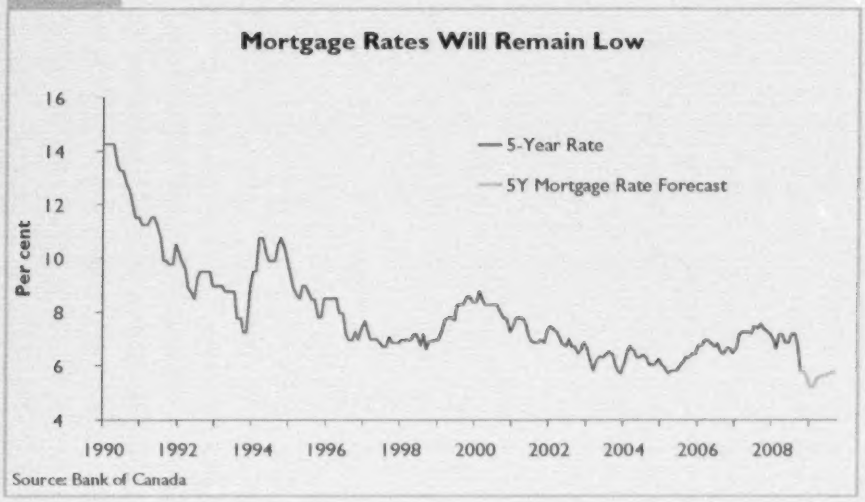
Employment in the 25 to 44 year age group generally associated with first-time buying decreased more rapidly compared employment for the 45 to 54 age group associated with move-up buying or the 55 to 64 age group often referred to as empty nesters. First-time buyers accounts for the largest category of London's population. The deterioration in first-time buyers' job conditions will delay their transition into homeownership.

Migration

With a soft job market, migration is forecast to slow in 2009 in the London CMA. Employment is the major factor for attracting migrants to this region. Much of the migration to London during the past few years was drawn by solid service sector expansion. With a softer service sector job market, the outflow of residents is expected to continue, especially to western Canada. There will also be fewer people moving into London from other areas in Ontario.

International migration will slow as well. The impact of slowing international migration will be more pronounced on the rental market. When new Canadians arrive in Canada, renting is usually the most prevalent tenure choice. They would move to homeownership after a few years once they establish a solid work and credit history.

Figure 6



Mortgage Rates

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very gradually during the course of 2010, reflecting a rise in government of Canada bond yields. For 2010, the one-year posted mortgage rate will be in the 4.75-6.00 per cent range, while three- and five-year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

Forecast Summary London CMA Spring 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	9,234	8,620	8,620	6,500	-24.6	6,700	3.1
MLS® New Listings	15,376	15,590	16,769	16,220	-3.3	16,500	1.7
MLS® Average Price ($)	190,521	202,908	212,092	207,000	-2.4	205,000	-1.0
New Home Market							
Starts:							
Single-Detached	2,090	1,983	1,369	650	-52.5	700	7.7
Multiples	1,584	1,158	1,016	846	-16.7	746	-11.8
Semi-Detached	42	42	24	26	8.3	26	0.0
Row/Townhouse	414	278	205	220	7.3	220	0.0
Apartments	1,128	838	787	600	-23.8	500	-16.7
Starts - Total	3,674	3,141	2,385	1,496	-37.3	1,446	-3.3
Average Price ($):							
Single-Detached	273,548	290,342	320,039	321,000	0.3	322,000	0.3
Median Price ($):							
Single-Detached	250,975	266,000	295,900	310,000	4.8	312,000	0.6
New Housing Price Index (% chg.)	5.2	3.6	3.5	0.0	-	0.0	-
Rental Market							
October Vacancy Rate (%)	3.6	3.6	3.9	4.2	0.3	3.9	-0.3
Two-bedroom Average Rent (October) ($)	790	816	834	845	-	855	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.80	-1.90	5.29	0.49
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.64	-1.42	5.94	0.30
Annual Employment Level	245,600	247,400	244,300	241,200	-1.3	242,500	0.5
Employment Growth (%)	1.0	0.7	-1.3	0.7	-	0.7	-
Unemployment rate (%)	6.2	6.1	7.0	6.3	-	6.9	-
Net Migration [1]	699	788	891	600	-	700	-

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), London & St. Thomas Association of Realtors (LSTAR)®, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 migration data is forecasted

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